

Date: September 3, 2013

To: Thomas J. Bonfield, City Manager
Through: W. Bowman Ferguson, Deputy City Manager
From: Joel V. Reitzer, Director, General Services Department
Subject: Proposed Ten Year Lease for the Office of Economic and Work Force Development with Edgemont Tenant, LLC at 807 E. Main Street, and First Amendment To Lease Agreement between Venable Tenant, LLC and City of Durham for the Dibrell Building at 302 E. Pettigrew Street.

Executive Summary

The Office of Economic and Work Force Development (hereafter referred to as "OEWD") and the Office of Equal Opportunity and Equity Assurance (hereafter referred to as "EO/EA") have leased a total of 8,778 square feet of space in the Dibrell Building at 302 E. Pettigrew Street since September, 2007. OEWD occupies 6,408 feet of space and EO/EA occupies 2,298 feet of space. The rental rate beginning September 1, 2013 is \$23.29 per square foot. The lease terminates August 31, 2014.

Due to ongoing issues regarding complaints from City employees housed in the OEWD portion of the City's space, OEWD identified a new space for their operations at the former Golden Belt Manufacturing complex located at 807 E. Main Street.

General Services Department staff on behalf of OEWD negotiated a lease for 6,264 square feet of space at 807 E. Main Street (Building 5, Golden Belt). The initial lease term is ten years with an option to renew for three additional years. The rental rate for the first year of the lease is \$18.50 per square foot, yielding a first year annual rent of \$115,884.00. The rental rate will increase by three percent each year. In addition, after the first lease year, the City shall pay its proportionate share of the increase in Landlord's expenses for property taxes, insurance premiums, and Common Area Maintenance; any increase shall not exceed 5% of the prior lease year's controllable charges. The Landlord is responsible for all expenses except utilities. The Landlord is also responsible for construction of interior modifications to the space as requested by OEWD, not to exceed \$80,000.00. The construction is slated to be completed within 120 days of lease execution.

A First Amendment to Lease Agreement will be executed in conjunction with OEWD's relocation to 807 E. Main Street (Building 5, Golden Belt). The amendment reflects the Landlord and Tenant's desire to amend the Lease at The Dibrell Building at 302 East Pettigrew Street, Durham NC in the following manner:

- a) Termination of OEWD's current premises consisting of 6,408 rentable square feet.
- b) Confirmation of EO/EA's responsibility to pay its pro-rata share of electricity charges billed to the premises consisting of 2,298 rentable square feet.

Recommendation

Authorize the City Manager to execute a ten-year lease with Edgemont Tenant, LLC in the amount of \$1,328,480.19 for space at Building 5 of the Golden Belt complex located at 807 E. Main Street and to execute the First Amendment to Lease Agreement between Venable Tenant, LLC and City of Durham for the Dibrell Building at 302 E. Pettigrew Street.

Background

OEWD and EO/EA entered into an agreement with Venable Tenant, LLC on July 26, 2007 to lease 8,778 square feet of space in the Dibrell Building at 302 E. Pettigrew Street. OEWD occupies 6,408 rentable square feet in the Dibrell Building. EO/EA occupies 2,298 rentable square feet in the Dibrell Building.

Due to office issues that precluded OEWD staff from operating in the same office for the past five years, several staff members relocated to available space at the Golden Belt Complex. The best long-term solution for consolidation of OEWD staff is to relocate their operations and enter into a new lease.

EO/EA's existing space at the Dibrell Building is acceptable for their continuing operations at that location. EO/EA will remain at Dibrell Building at 302 E. Pettigrew Street until the lease termination date of August 31, 2014.

Issues/Analysis

Approval of the new Lease for OEWD at 807 E. Main Street satisfies the operational needs of the department for a ten year period. With the proposed Golden Belt lease, OEWD's monthly rent will decrease from \$12,436.86 to \$9,657.00 in year one.

The new proposed OEWD space is designed to accommodate the entire staff which allows for more continuity and efficiency in their day to day operations. The new location is in close proximity to other City departments located within the Golden Belt Complex.

OEWD has accounted for the proposed new lease amount in their operational budget. The rent proposed is consistent with comparable market rates.

Alternatives

City Council could decide not to approve the Lease for OEWD at 807 E. Main Street and the amendment of the current lease. This alternative is not recommended as it will not satisfy the operational requirements of the department.

Financial Impact

The term of the OEWD lease is ten years; the lease rate will increase three percent annually. The rent schedule is as follows:

Year	Monthly Rent	Annual Rent
Year 1	\$9,657.00	\$ 115,884.00
Year 2	\$9,946.71	\$ 119,360.52
Year 3	\$10,245.11	\$ 122,941.34
Year 4	\$10,552.46	\$ 126,629.58
Year 5	\$10,869.04	\$ 130,428.46
Year 6	\$11,195.11	\$ 134,341.32
Year 7	\$11,530.96	\$ 138,371.56
Year 8	\$11,876.89	\$ 142,522.70
Year 9	\$12,233.20	\$ 146,798.38
Year 10	\$12,600.19	\$ 151,202.34
TOTAL RENT		\$1,328,480.19

Funds to pay the monthly rent are currently encumbered under the Dibrell Building lease at Venable Center. It is expected that the Dibrell Building lease will terminate November 30, 2013 and the Golden Belt lease will commence on December 1, 2013. Once the Dibrell Building lease is terminated, funds will become available to pay rent at the new location (Golden Belt) from these accounts:

ORG	OBJ	Project	Amount
07010000	721000		\$ 43,816.43
07200000	721000		\$ 6,702.36
13507014	721000	7G310	\$ 17,080.21

SDBE Summary

This item does not require review by the Equal Opportunity/Equity Assurance Department.

Attachments: OEWD Lease Document, First Amendment to Lease Agreement